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## TRADE SECRETS.

If a trader has a secret process of manufacture, this may be largely the basis of the profitableness of his business and so must be guarded. In the use of this secret, as in other right, the law will protect the owner from undue molestation and unfair competition.

First, however, this must be a *trade* secret, not one which being divulged would injure plaintiff's character or affect the manner in which he acts in general.<sup>1</sup> "There can be no confidence which can be relied on to restrain the disclosure of iniquity" and no employer can obtain the interposition of the law to prevent disclosure by an employee of his improper practices.<sup>2</sup>

Secondly, there must be a secret. In the early days, the court in England refused<sup>3</sup> to grant an injunction against revealing a secret recipe for medicines. Lord Elton said, if the defendant has already told the secret, he cannot be prevented, and if there is no secret, as he alleges, how can the court try the question. The courts, however, now freely grant injunction in case of trade secrets, but, unless the defendant's own statement declares that he uses the secret,<sup>4</sup> it is sometimes difficult to establish the fact that the goods are prepared thereby, except by chemical analysis. The difficulty of analysis is most pronounced in the case of vegetable compounds.<sup>5</sup> If a trader sells another a trade secret and the latter sues to set the sale aside,<sup>6</sup> on the ground that there is no such secret, the trader must prove the existence of the secret or lose his case. A trader is not privileged from answering a question which reveals his secret, in such a case.<sup>7</sup> It is important to distinguish secret trade processes from mere skillful combinations, and mixing of selected materials under different tem-

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1. *Bristol v. Equitable Life Soc.*, 132 N. Y. 264.

2. *Gartside v. Outram*, 3 Jur. N. S. 39.

3. *Williams v. Williams*, 3 Mer. 157 (1817). The court said in another case (*Newbery v. James*, 2 Mer. 445) in 1817, that no injunction against revealing a trade secret would issue, as no specific performance of a transfer of the recipe would be decreed.

4. *Whitney v. Hickling*, 5 Gr. U. C. Ch. 605.

5. *Simmons v. Simmons*, 81 Fed. 163.

6. *Carter v. Goetze*, 2 Keen 581.

7. *Burnett v. Phalon*, 19 How. Pr. 530.

peratures from those which other manufacturers applied to the same materials.<sup>8</sup> The latter methods may be used by any one who has a factory adapted for the preparation of the articles. A trade secret may be used by the original discoverer, his assignee, or any other person, such as another discoverer, who has acquired the secret, lawfully. Any one who has acquired the secret and uses it without fraud may make articles thereby and call them by the proper name,<sup>9</sup> being careful not to pass off his product for that of the original maker.<sup>10</sup> For example, a person, lawfully acquiring knowledge of the formula by which Ward made a Vegetable Anodyne Liniment, may call his preparation by that name, but may not refer to his liniment as Ward's.<sup>11</sup> Of course, the owner may prevent any one from obtaining and using his secret through theft, fraud, or breach of contract. If the knowledge is obtained in any other way, a person may use the secret even against the will of the first owner.<sup>12</sup> Possibly even an employee may use the secret, if he discovered it by independent investigation and not by a confidential communication.<sup>13</sup>

A man may purchase a trade secret, together with its name, but not the name alone, and where a man bought a name from the trustee of a trader, who alone knew the secret, the purchaser was not allowed to use the name, nor to restrain the inventor from calling by that name goods made by his process.<sup>14</sup>

To use the name of a trade secret with a different formula of preparation is of course a fraud which the courts will restrain.

When a secret process belonging to a firm is not sold on the dissolution of the partnership, each former partner may use the process.<sup>15</sup>

Where a man and his wife had a trade secret<sup>16</sup> and she, dying after him, destroyed the written copy of it, but communicated it verbally to her eldest son, for the benefit of all the children, a younger sister

8. *Bell & Bogart v. Petrolia Co.*, 54 N. Y. Supp. 663. Coal-oil Johnny Soap case.

9. *Canham v. Jones*, 2 Ves. & B. 218; *Green v. Roorke*, 1872 W. N. 49; *Siebert v. Findlater*, 7 Ch. D. 801; *James v. James*, 20 W. R. 434.

10. The same process used by persons of different care and skillfulness may produce different results.

11. *Watkins v. Langdon*, 52 Minn. 389; *Massam v. Thorley*, 6 Ch. D. 574; 14 Ch. D. 748.

12. *Chadwick v. Covell*, 51 Off. Gaz. 2087.

13. *Estcourt v. Estcourt*, 44 L. J. Ch. 223.

14. *Morison v. Moat*, 20 L. J. Ch. 513; 21 L. J. Ch. 248; *Cotton v. Gillard*, 44 L. J. Ch. 90; *Powell v. Birmingham Co.*, 14 R. P. C. 1 and 720.

15. *Baldwin v. von Micheroux*, 25 N. Y. Supp. 857; 31 N. Y. Supp. 696.

16. *Green v. Folgham*, 2 Sim. & Stu. 398.

who sued the son got a decree in 1823 that he held the recipe on trust; must account for profits since his mother's death; and, as a sale of the secret was impracticable, the value of it was left to a jury.

In another case,<sup>17</sup> both the son of the inventor of a trade secret and his wife, who was separated from him, carried on the business independently. He took no steps to prevent her from so doing, except to issue advertisements warning people not to deal with her, and to have a reduction in the alimony paid her, as she took part of his trade. He sold the good-will of the business to the plaintiff, who sued the wife, but the court refused relief. The son had probably lost what rights he had by acquiescence and, as there had been no administration on the father's estate, he had no right to an exclusive use of the secret apart from the father's other children. A man who carries on business, using a secret process, may sell that secret to another and bind himself<sup>18</sup> not to use it or reveal it to a third person thereafter. The court may order specific performance of a contract to disclose a trade secret to the purchaser of a business,<sup>19</sup> as well as an injunction against disclosure to others. If the secret is worth anything, the public is not prejudiced by the transfer<sup>20</sup> and the contract is therefore not in restraint of trade.<sup>21</sup> This contract may be for an indefinite or a fixed time, and may cover merely the use of the trade secret, or the making goods of the same class; e. g., a trader who sold a secret of cheese making and agreed not to make or sell cheese with the same name and similar trade mark within five years was not permitted to break the contract.<sup>22</sup> It has been held<sup>23</sup> that a man, who stood by and saw another buy a recipe as a trade secret, without disclosing the fact that the contents had been communicated to him and without claiming a right to manufacture it, was estopped from setting up the communication, or deriving advantage therefrom and that the originator of an idea, which cannot be sold without disclosure, must protect it from disclosure by some contract. If he disclose it to another without an agreement as to compensation, the other may use it without incurring liability to him.<sup>24</sup>

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17. *Hovenden v. Lloyd*, 18 W. R. 1132.

18. *Jarvis v. Peck*, 1 Hoff. Ch. 479; 10 Paige 118; *Champlin v. Stoddart*, 30 Hun 300.

19. *Simmons v. Simmons*, 81 Fed. 163.

20. *Nat. Gum. Co. v. Braendly*, 51 N. Y. Supp. 93.

21. *Vickery v. Welch*, 19 Pick. 523.

22. *Tode v. Gross*, 127 N. Y. 480.

23. *Champlin v. Stoddart*, 30 Hun 300.

24. *Bristol v. Equitable Life Soc.*, 132 N. Y. 264. Plaintiff invented system of soliciting insurance, but had no insurance to sell, and alleged that defendant, to whom he disclosed it, used it without paying him therefor.

So a person who learned the secret from a partner in a firm,<sup>25</sup> who was bound not to reveal it, will be enjoined from using it.

The most of the trade secret cases deal with the improper use of an alleged secret by one who was an employee or in confidential relations with a trader. The courts, uniformly, state that a person, who has a secret process in trade, employs persons under a contract, express or implied,<sup>26</sup> that these persons shall not gain knowledge of the secret in the course of their employment and then set it up against their employer. A violation of this principle involves conduct so obviously fraudulent that the English statute regulating factories and workshops provides that it shall be punished by a fine of £10.

There are two kinds of the use of the secret against the employer: (1) where the employee obtains knowledge of the secret from his master,<sup>27</sup> and (2) where the employee discovers the secret in course of his service of the employer. In either case, if the employee is enjoined from imparting the secret, the third party to whom he has imparted, or proposes to impart it,<sup>28</sup> may be also enjoined from using it, as he obtained the information from a person guilty of breach of contract in communicating it. An employee is not alone restrained from the use of process of manufacture, but also from subsequent use to advance his own business and to the injury of the employer's interests, of any confidential information<sup>29</sup> which was received by him so that his employer's business might be advanced. Thus the use of a list of the employer's customers to send a circular containing statements damaging his business was condemned. A former agent of a cable company, however, may advertise to the customers of that company that he has the company's cyphers, which are not confidential, nor used for secrecy, but to reduce cable charges.<sup>30</sup> These cyphers belong to the customers, rather than to the company, and may be used by them, as they will, and also by the former employee, in absence of contract to the contrary, as he may also use all other information not confiden-

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25. *Morison v. Moat*, 20 L. J. Ch. 513; 21 L. J. Ch. 248.

26. *Morison v. Moat*, 20 L. J. Ch. 513; 21 L. J. Ch. 248.

27. *Tuck v. Priester*, 19 Q. B. D. 629. An analogous case is one in which a man, employed to execute a drawing for another, makes and sells unauthorized copies.

28. *Tipping v. Clarke*, 2 Hare. 383.

29. *Helmore v. Smith*, 35 Ch. D. 449; *Little v. Gallus*, 38 N.Y. Supp. 487; *Simmons v. Simmons*, 81 Fed. 163; *Merryweather v. Moore*, 1892-2 Ch. 518.

30. *Reuter v. Byron*, 43 L. J. Ch. 661; *Lamb v. Evans*, 1892-3 Ch. 462; 1893-1 Ch. 218. Agent leaving employer may solicit business for rival and use directory published by former employer so as to discover advertisers and the kind of advertisement they made.

tial in character gained while in the company's service. On the other hand, a man employed within the conditions, express or implied, that he will not use information imparted by the trader for himself or a business rival, may be restrained from breach of the contract.<sup>31</sup>

In absence of contract,<sup>32</sup> the former employee may tell the prices of purchase and sale of his employer's goods and the persons from whom supplies were bought and to whom the product was sold, but he may not go further and use or disclose the secret process of manufacture. It makes no difference whether the employee ascertained the secret surreptitiously,<sup>33</sup> or by deliberate instruction. He is bound not to reveal it to the prejudice of his employer. Especially is he bound, when he received an increase of wages in consideration of his agreement not to reveal the secrets,<sup>34</sup> nor use them in opposition to the employer, or when the rules of the business, which were read to him on entering it, forbade the communication of matters connected with it.<sup>35</sup>

In Victoria, the inventor of a secret medicinal formula agreed with an apothecary that the latter should make the medicines, while the former supplied him with money for printing, advertising and travelling expenses.<sup>36</sup> The profits were equally divided, but a partnership was not proven. The apothecary took a partner, after eight years, and told him the secret, without the owner's consent. A few years later, the owner suddenly broke off the agreement, and the apothecary agreed to this step, "subject to our right" in the medicine, and continued to make and sell it. The owner brought suit, claiming that there was no such right, and secured an injunction against imparting the recipe, making the medicine, or selling it, except as to the stock on hand at the termination of the agreement. In consequence of the suddenness of terminating the arrangement, however, the owner was directed to pay within a month for the ingredients the apothecary had on hand.

Where an employee invents a trade compound with materials sup-

31. *Thum v. Tloczynski*, 114 Mich. 149.

32. *Salomon v. Hertz*, 40 N. J. Eq. 400.

33. *Yovatt v. Winyard*, 1 J. & W. 394 (1820).

34. *Fralich v. Despar*, 165 Pa. St. 24.

35. *Portal v. Hine*, 4 T. L. R. 330. Here the employee made memoranda of the work, organization and administration of the mill and the court enjoined him from communicating his information and refused to allow his notes to be read in open court, but required them to be deposited with the judge. The business was the manufacture of paper for Bank of England notes.

36. *Weston v. Hemmons*, 2 V. L. R. E. 121.

plied by the employer and the intention of all parties, at the time, is that the process by which the compound is prepared shall belong to the employer,<sup>37</sup> he becomes the owner thereof, though there be no assignment made by the inventor. The only value of the process is the absolute secrecy and an implied contract will be considered to have existed. The case is still stronger against the employee, when there was an agreement to assign secrets or improvements discovered in the course of the employment.<sup>38</sup>

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37. *Baldwin v. von Micheroux*, 25 N. Y. Supp. 857.

38. *Eastman Co. v. Reichenbach*, 20 N. Y. Supp. 110.